SUPPLEMENTAL REBUTTAL TESTIMONY OF
PRABIR PUROHIT
ON BEHALF OF
DOMINION ENERGY, INC.
DOCKET NO. 2017-370-E

Q. PLEASE STATE YOUR FULL NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Prabir Purohit and my business address is 120 Tredegar Street, Richmond, Virginia 23219. I am the Director of Mergers and Acquisitions and Financial Analysis at Dominion Energy, Inc. ("Dominion Energy").

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

A. Yes, I filed rebuttal testimony on behalf of Dominion Energy in Docket No. 2017-370-E on October 24, 2018.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?

A. The purpose of my supplemental rebuttal testimony is to discuss an Alternative Customer Benefits Plan associated with the proposed merger developed by Dominion Energy and South Carolina Electric & Gas Company's ("SCE&G") parent, SCANA Corporation ("SCANA"), in response to suggestions by various stakeholders to this proceeding.

THE ALTERNATIVE CUSTOMER BENEFITS PLAN

Q. WOULD YOU PLEASE DISCUSS THE ALTERNATIVE CUSTOMER BENEFITS PLAN AND EXPLAIN WHY YOU ARE PRESENTING IT?

A. Yes. On August 14, 2018 the South Carolina Office of Regulatory Staff ("ORS") filed its testimony in this docket and recommended a plan that provides no upfront cash refund to customers, but instead provides lower bills going forward. Since that time, a number of parties to the case have expressed an interest in seeing an alternative plan from us that does something similar to the ORS plan; that is, lower bills over time in lieu of upfront cash refunds. As a result, we developed the Alternative Customer Benefits Plan (the "Alternative Plan"). We have shared this Alternative Plan with several parties on a confidential basis. As was noted in the rebuttal testimony of Company Witness Thomas F. Farrell, II, Dominion Energy continues to believe that the original Customer Benefits Plan is most advantageous to SCE&G ratepayers, and Dominion Energy continues to stand behind that proposal. However, this Alternative Customer Benefits Plan has been developed in response to the suggestions of other parties within South Carolina, and we have developed it in a way that preserves the merger economics of the Customer Benefits Plan.

Q. WHAT ARE THE KEY FEATURES OF THIS ALTERNATIVE

CUSTOMER BENEFITS PLAN AS COMPARED TO THE ORIGINAL CUSTOMER BENEFITS PLAN THE APPLICANTS FILED ON AUGUST 2, 2018?

A. In the original Customer Benefits Plan, ***which we continue to recommend***, we would provide upfront cash refunds totaling $1.3 billion, which works out to an average refund to residential customers of about $1,000. In addition, that plan provides a refund of $575 million credited to bills over eight years which, in combination with reductions related to the Tax Cuts and Jobs Act of 2017, would reduce the bill approximately by about 7% from the May 2017 rate level. The Customer Benefits Plan would collect in rates approximately $3.3 billion (less adjustment for deferred taxes) of capital recovery associated with the NND Project over twenty years at the 10.25% return on equity ("ROE") and 5.85% cost of debt, both fixed for the twenty year recovery period as approved in the last Baseload Review Act ("BLRA") proceeding. In terms of the typical residential bill, the Customer Benefits Plan would reduce the bill from $147.53 per month (May 2017 levels) to about **<u>$137 per month</u>**, plus it provides the $1,000 up front cash refund.

Q. AND HOW DOES THE ALTERNATIVE PLAN DIFFER?

A. The Alternative Customer Benefits Plan would provide, in lieu of the upfront cash refund, a total of $1.91 billion in refunds over a twenty year NND recovery period, would lower the requested ROE to be earned on the NND to be 9.9% versus 10.25% proposed in the Customer Benefits Plan, as well as reduce the cost of debt from 5.85% to 5.56%. The 5.56% cost of debt is consistent with the

ORS proposal. In both plans, the capital structure is comprised of 52.81% equity and 47.19% debt. For the Alternative Customer Benefits Plan, we also have lowered the NND investment to be recovered by approximately $550 million, to $2.772 billion from $3.327 billion (less adjustment for deferred taxes). The net operating loss is also reduced in the Alternative Plan from $2.0 billion to $1.5 billion. This results in a smaller deferred tax asset, which lowers the NND rate base, and therefore lowers bills further.

Q. WHAT IS THE RESULT OF THESE CHANGES?

A. These changes produce a significantly greater bill reduction of nearly 14%—twice the amount provided by the original Customer Benefits Plan, to an estimated **$126.96 per month** for the typical residential bill, inclusive of the impacts of the Tax Cut and Jobs Act of 2017. A roughly similar percentage bill reduction would result for the commercial and industrial rate customers and, of course, any individual customer may see higher or lower percentage and dollar savings depending on the rate schedule and unique usage profile of the customer.

Q. HOW DID YOU DETERMINE WHAT CHANGES TO MAKE TO THE CUSTOMER BENEFITS PLAN TO DEVELOP THE ALTERNATIVE PLAN?

A. In developing the Alternative Customer Benefits Plan, our focus was on changes we could make that would lower customer bills as much as possible, while preserving the merger economics of the original Customer Benefits Plan. As we have always said, we believe we can provide benefits to customers through the merger that will not otherwise be available absent the merger. And we have also said that, while we recommend the Customer Benefits Plan with the upfront cash refund, we would be open to moving elements of the plan around to optimize the plan for customers. But in so doing, we also have a fiduciary responsibility to our shareholders to maintain the economics of the merger. And that is what we have sought to accomplish in making adjustments to the Customer Benefits Plan to develop the Alternative Plan.

Q ON WHAT BASIS DID YOU REDUCE THE NND RECOVERY AMOUNT FROM $3.327 BILLION TO $2.77 BILLION?

A. Very simply, without conceding that any investments in SCE&G's NND Project were imprudent, we will stipulate to the amount of NND investment made up through March 12, 2015 as used by ORS witness Kollen in his testimony, assuming the merger and this cost recovery plan are approved.

Q PLEASE ELABORATE ON THE $1.91 BILLION IN REFUNDS THAT YOU REFERENCED.

A. Approximately $1 billion of this amount will be refunded to customers evenly over the twenty-year NND cost recovery period. This amount is equal to the retail portion of the net proceeds of SCANA's settlement with Toshiba Corp. Payment of these funds to customers will decrease the regulatory liability recorded by SCE&G associated with the Toshiba settlement on a straight-line basis over twenty years. $880 million of this amount will provide a refund of certain amounts previously collected under the BLRA. SCE&G will establish an $880 million regulatory liability for refunds of amounts previously collected from customers, which will be credited to customers over approximately ten years. We believe the additional $880 million refunded fully compensates customers for the time value of money associated with paying the Toshiba related amounts out over the 20 year period. In consideration of these benefits, no rate base reduction or offset shall be recognized for the unamortized balance of the $1.91 billion in refunds described above. Compared to the Customer Benefits Plan, the Alternative Plan reduces the net undiscounted amount customers would pay over 20 years by about $1.2 billion (from about $3.6 billion in the Customer Benefits Plan to about $2.4 billion in the Alternate Plan). Detailed work papers of both plans are attached in Confidential Exhibit __ (PP-1).

Q. PLEASE DISCUSS THE DIFFERENCES IN THE NET OPERATING LOSS CARRYFORWARD ("NOLC") UNDER THE PLANS.

A. There are a number of different methods of allocating income tax expenses and tax attributes, such as NOLCs, to members of a consolidated tax return group. The Customer Benefits Plan and the Alternative Customer Benefits Plan proposed by the Joint Petitioners include the entire NOLC calculated under the two approaches described herein. The NOLC is an integral part of a complete economic proposal which enables the transaction to move forward.

Under the Customer Benefits Plan, we used one approach commonly referred to as the "separate return" method. Under this method NOLCs are calculated and allocated to members of the group by applying the relevant income tax law to each member of a consolidated group as if it were a separate taxpayer and not part of the consolidated group. The $2 billion NOLC reflected in the Customer Benefits Plan was calculated as though SCE&G filed its own, non-consolidated tax return and did not reflect any impacts from being included in the SCANA consolidated group. Thus, only SCE&G's taxable income would be available to offset the NOLC prior to the merger.

The Alternative Customer Benefits Plan uses a different, although equally acceptable, methodology commonly referred to as the "stand alone," or FERC, methodology. Under the "stand alone" method, SCANA's consolidated income tax expense is allocated to each member of the consolidated group recognizing the benefits or burdens contributed by that member to the consolidated income tax liability. The $1.5 billion estimated NOLC reflected in the Alternative Customer Benefits Plan was calculated as though all members of the SCANA consolidated group (including SCE&G) constitute a single taxpayer whereby the net taxable income generated by each and every member of the group would be available to reduce the consolidated NOLC prior to the merger.

Under both plans, reductions in the NOLC subsequent to the merger shall be subject to Dominion Energy's ability to use the NOLC to reduce its consolidated income tax liability in accordance with Internal Revenue Code Sections 172 and 382 and shall be computed on a consolidated and not a separate company basis.

Q. PLEASE SUMMARIZE YOUR TESTIMONY ON THE ALTERNATIVE CUSTOMER BENEFITS PLAN?

A. While the Joint Applicants continue to recommend and support the Customer Benefits Plan, including upfront cash refunds of $1.3 billion, we have developed an Alternative Customer Benefits Plan that doubles the percentage bill reduction to a level which we believe will provide SCE&G customers with competitive rates, while preserving a healthy utility able to continue to serve the needs of customers, the communities and the State of South Carolina. If the Commission decides to opt for lower bills in lieu of upfront cash refunds, we believe the Alternative Plan strikes the appropriate balance between minimizing bills for customers, retaining the merger economics for Dominion Energy shareholders, and preserving the financial health of the utility.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?

A. Yes, it does.